

MORIHARA LAU & FONG LLP

A LIMITED LIABILITY LAW PARTNERSHIP

March 10, 2010

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PUBLIC UTILITIES
COMMISSION

HAND DELIVER

The Honorable Chairman and Members of the
Hawaii Public Utilities Commission
465 South King Street
Kekuanaoa Building, Room 103
Honolulu, HI 96813
Attention: Michael Azama, Esq.

RE: Docket No. 2009-0048
Molokai Public Utilities, Inc. ("MPUI") Application for the review and approval of
rate increases filed on a General Rate Increase for All Utility Gas Divisions
Filed on June 29, 2009:
Statement of Probable Entitlement in Support of Interim Rates

Dear Chairman, Commissioners and Commission Staff:

Pursuant to the Stipulated Regulatory Schedule (Exhibit "A") contained in the Order Approving Proposed Procedural Order, as Modified, filed on November 6, 2009, MPUI hereby submits its Statement of Probable Entitlement in Support of Interim Rates ("Statement of Probable Entitlement") which provides MPUI's proposed revenue requirements solely for purposes of granting interim rate relief to MPUI, pursuant to Hawaii Revised Statutes ("HRS") § 269-16.

Background

For purposes of the Commission granting interim rate relief in this proceeding, MPUI provides the following:

1. On June 29, 2010, MPUI filed its amended general rate case application ("Amended Application") in the subject docket requesting Commission approval to increase its rates, establish a separate power adjustment clause and a separate fuel adjustment clause, and increase its reconnection fee, pursuant to HRS § 269-16. MPUI's Amended Application included, among other things, the applicable Direct Testimonies, Exhibits, and Workpapers in support of the Amended Application, pursuant to Hawaii Administrative Rules ("HAR") Chapter 6-61.

2. On July 29, 2009, the Commission issued its Order Regarding Completed Amended Application and Other Initial Matters ("Order"), wherein the Commission found (a) that the Amended Application was complete and properly filed under HRS §269-16(f) and HAR § 6-61-88, with a completed application filing date of June 29, 2009; and (b) the parties were instructed to submit a stipulated procedural order consistent with the terms of the Order.¹

¹ If no motions to intervene or participate were filed, the Parties were required to file a stipulated prehearing order within seven days following the deadline to file such motions. If such motions were filed and the Commission granted intervention or participation to one or more parties, the Parties then would

3. On October 16, 2009, the Commission granted the respective Motions to Intervene filed by the County of Maui ("COM"), West Molokai Association ("WMA"), and Stand for Water ("SFW").²

4. Pursuant to the Stipulated Regulatory Schedule (Exhibit "A") contained in the Order Approving Proposed Procedural Order, as Modified, filed on November 6, 2009, the Consumer Advocate, COM, and WMA submitted extensive, detailed information requests ("IRs") on MPUI to obtain information supportive of the parties' investigation of the Amended Application, and MPUI provided responses to these IRs. The parties subsequently issued supplemental IRs on MPUI, to which MPUI provided its responses.

5. On January 6, 2010, the Consumer Advocate and WMA filed their Direct Testimonies, Exhibits and Workpapers, setting forth their respective positions on MPUI's Amended Application. WMA did not file any Direct Testimony. On January 19, 2010, MPUI submitted its IRs to the Consumer Advocate and WMA, and such parties submitted their responses to MPUI on January 28, 2010.

6. On February 8, 2010, MPUI filed its Rebuttal Testimony.

7. HRS § 269-16(d) maintains that the Commission make every effort to complete its deliberations and issue a final decision in public utility rate cases within nine months after a completed application has been filed by a utility. If such deliberations are not concluded within the nine-month period, HRS § 269-16(d) requires the Commission to render an interim decision within one month after the expiration of the nine-month period based on what the Commission believes the public utility "is probably entitled" to. The interim rate decision may be postponed for an additional thirty days if the Commission considers the evidentiary hearing incomplete. In this proceeding, the nine-month deadline for the issuance of a final decision regarding matters of this docket is March 29, 2010. Correspondingly, the ten-month deadline for the issuance of an interim rate decision is April 29, 2010. The Commission recently issued a Notice of Hearing indicating that the evidentiary hearing in this proceeding will commence on May 11, 2010.

Statement of Probable Entitlement for Interim Rate Purposes

In light of the above, MPUI submits the following in support of its Statement of Probable Entitlement:

1. MPUI submits that the existing evidentiary record, together with this submittal, is sufficient to grant MPUI interim rate relief, pursuant to HRS § 269-16(d), and in that connection, MPUI hereby respectfully requests that MPUI be granted interim rate relief by no later than the ten-month deadline; i.e., by April 29, 2010.

be required to submit a stipulated prehearing order within ten days following the Commission's order granting such intervention or participation. See Order at 7-8.

² Pursuant to Order Dismissing Stand for Water as an Intervenor filed January 19, 2010, the Commission dismissed SFW as an intervenor in this proceeding.

2. MPUI recognizes that, in order for the Commission to grant interim relief, pursuant to HRS § 269-16(d), the Commission must believe that MPUI is "probably entitled" to an increase in rates based on the evidentiary record before it.

3. MPUI submits that, based on the evidentiary record which includes this submittal, MPUI is probably entitled to an increase in its rates to the extent provided herein.

4. Without interim relief in this proceeding, MPUI will be denied a reasonable opportunity to earn a fair return on its rate base.

5. In support of the above, MPUI submits and provides the following statements into the record for purposes of obtaining the requested interim rate relief to the extent provided herein:

(a) **Exhibit MPU-R-1** attached hereto provides the revenue requirements and results of operations for the forecast test year ending June 30, 2010 ("Test Year"). This Exhibit MPU-R-1 was attached to MPUI's Rebuttal Testimony filed on February 8, 2010, and details the proposed revenues, expenses, average rate base, and the return on rate base separated by (i) the amounts which were included as part of MPUI's Amended Application; (ii) the results as set forth in the Consumer Advocate's Direct Testimony; and (iii) the amounts as adjusted following the Consumer Advocate's Direct Testimony.

(b) Following MPUI's adjustments and for interim rate purposes pending a final decision by the Commission in this docket, MPUI submits that it is appropriate and reasonable to adopt for MPUI an average rate base of \$1,190,062 (line 35, column 6), a rate of return on rate base of two percent (2.0%) (line 36, column 6), and a Test Year revenue requirement of \$1,196,734 (line 6, column 6).

6. MPUI believes that an interim increase in revenues of \$756,896³ over the rates previously approved by the Commission in Docket No. 02-0371, or an increase of approximately 172.1% over revenues at present rates, is just and reasonable.⁴

7. MPUI believes that the Commission should allow MPUI to increase its rates, on an interim basis, to such levels as will produce, in the aggregate, \$1,196,734 in additional revenues for the Test Year. See **Exhibit MPU-R-1**.

8. The revenue increase and requirements from which MPUI will establish its rates, are established for interim rate purposes based only on what MPUI believes that it is entitled to under the probable entitlement standard set forth in HRS § 269-16(d).

9. MPUI acknowledges that it will be required to refund to its customers any excess collected in accordance with the interim relief granted by the Commission, together with interest as provided by HRS § 269-16(d), if the final increase approved by the Commission as part of its

³ \$1,196,734 (line 6, column 6) less \$439,838 (line 6, column 1).

⁴ When calculated against the temporary rates currently in effect, the proposed increase is approximately 57.4%.

The Honorable Chairman and Members of the
Hawaii Public Utilities Commission
March 10, 2010
Page 4

final decision and order in this proceeding is less than the total interim increase granted by the Commission. MPUI also understands and acknowledges that if the final increase approved by the Commission as part of its final decision and order is higher than the total interim increase granted by the Commission, and subject to a Commission determination otherwise, the higher increase approved as part of its final decision and order will only be effective from and/or after the final decision and order and will not be retroactive to the date of the interim increase.

Based on the foregoing, MPUI respectfully requests that the Commission issue an interim decision and order by April 29, 2010, granting MPUI interim relief consistent with the terms set forth herein, the revenue requirements described in **Exhibits MPU-R-1** attached hereto and above.

Thank you for your consideration. If you have any questions, please do not hesitate to contact the undersigned.

Very truly yours,

A handwritten signature in black ink, appearing to read "MHL", with a small horizontal line at the end.

Michael H. Lau

Cc: Consumer Advocate
Jeanette Castagnetti, Esq. (COM)
William W. Milks, Esq. (WMA)
Andrew V. Beaman, Esq. (MPL)

EXHIBIT MPU-R-1

Molokai Public Utilities, Inc.
Company and Consumer Advocate Comparison
Test Year Ending June 30, 2010

Line #	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	
	MPU As Filed		MPU At Proposed Rates				Consumer Advocate			Difference [9] - [6]	
	Present Rates	Temporary Rates	As Filed	Adjustments	Adjustments 7.25	Revised	At Present Rates	At Temporary Rates	At Proposed Rates		
REVENUE											
1	Monthly Customer Charge	\$53,228	\$ 53,228	\$ 160,656	(\$540) F	\$ (15,667) K	\$ 144,449	\$52,688	\$52,688	\$111,362	(\$33,087)
2	Water Usage Charge	385,410	705,730	1,164,241	277 F	(113,533) K	1,050,985	356,165	706,007	746,075	(304,910)
3	Connection Fees	0					0				0
4	Late Fees	1,200	1,200	1,200	100 F		1,300	1,300	1,300	1,300	0
5											
6	Total Operating Revenues	439,838	760,158	1,326,097	(163)	(129,200)	1,196,734	410,153	759,995	858,737	(337,997)
EXPENSES											
7	Labor, PR Tax & Empl Bene	209,865		209,865	(15,980) J		193,885	165,308		165,308	(28,577)
8	Electricity Expense	282,524		282,524		(128,675) G	153,849	133,439		133,439	(20,410)
9	Fuel Expense	231,067		231,067		(31,180) H	199,887	170,241		170,241	(29,646)
10	Department of Agn -	144,456		144,456	(7,959) B		136,497	144,456		144,456	7,959
11				0			0				0
12	Materials & Supplies	85,583		85,583			85,583	14,010		14,010	(71,573)
13	Affiliated Charges	9,600		9,600			9,600	9,600		9,600	0
14	Professional & Outside Services	14,137		14,137			14,137	14,137		14,137	0
15	Repairs & Maintenance	65,812		65,812			65,812	65,812		65,812	0
16				0			0				0
17	Insurance	13,000		13,000			13,000	13,000		13,000	0
18	Regulatory Expense	55,000		55,000	70,794 C		125,794	55,000		55,000	(70,794)
19	General & Administrative	13,318		13,318			13,318	13,318		13,318	0
20	Total O&M Expenses	1,124,362	0	1,124,362	46,855	(159,855)	1,011,362	798,321	0	798,321	(213,041)
21	Taxes, Other Than Income	28,084		84,671	(10) I	(7,603) I	77,068	54,830		54,830	(22,228)
22	Depreciation	92,479		92,479	(8,001) D		84,478	5,587		5,587	(78,891)
23	Income Taxes	(306,912)		4,607	(4,607) E		0				0
24	Diff. due to changing factors										0
25	Total Operating Expenses	938,013	0	1,306,119	34,237	(167,458)	1,172,898	858,738	0	858,738	(314,160)
26	Operating Income	(\$498,175)		\$19,978	(\$34,400)	\$38,258	\$23,836	(\$448,585)		(\$1)	(\$23,837)
AVERAGE RATE BASE											
27	Plant in Service	\$ 6,583,033		\$ 6,583,033			\$ 6,583,033	\$ 6,543,033		\$ 6,543,033	(40,000)
28	Accumulated Depreciation	(5,469,451)		(5,469,451)	4,001 D		(5,465,451)	(6,479,591)		(6,479,591)	(1,014,141)
29	Net Plant	1,113,582		1,113,582	4,001		1,117,583	63,442		63,442	(1,054,141)
30											
31	Customer Deposits	(10,691)		(10,691)			(10,691)	(10,691)		(10,691)	0
32	ADIT						0				0
33	HCGETC	(199,317)		(199,317)	199,317 E		0	(199,531)		(199,531)	(199,531)
34	Working Capital	92,587		92,587	(9,417) A		83,170	65,417		65,417	(17,753)
35	Average Rate Base	\$ 996,161	\$ -	\$ 996,161	\$ 193,901	\$ -	\$ 1,190,062	\$ (81,363)	\$ -	\$ (81,363)	\$ (1,271,425)
36	Return on Rate Base	-50.01%		2.01%			2.00%				

Molokai Public Utilities, Inc.
Rebuttal Adjustments

	[1]	[2]	[3]
Adj #	Reference #	Amount	Total
A			<u>\$ (9,417)</u>
B		\$ 144,456	
		<u>136,497</u>	
			<u>\$ (7,959)</u>
C	MPU R-9		<u>\$ 70,794</u>
D			<u>\$ (8,001)</u>
	50.0%		<u>\$ 4,001</u>
E			<u>\$ (4,607)</u>
E			<u>\$ 119,317</u>
F			
		(\$540)	
		277	
		<u>100</u>	
			<u>\$ (263)</u>
G			<u>\$ (128,675)</u>
H			<u>\$ (31,180)</u>
I			
J			<u>\$ (15,980)</u>
K			
	\$ 160,656	12.13%	\$ (15,667)
	<u>1,164,241</u>	87.87%	<u>(113,533)</u>
	<u>\$ 1,324,897</u>		<u>\$ (129,200)</u>
		<u>\$ (129,200)</u>	
		2.00%	